Statement of Mr. Ron Frost, Fleming Companies,
Before the U.S. House Committee on Commerce
Subcommittee on Energy and Power
May 9, 1997

Good morning Mr. Chairman and members of the committee. I am Ron Frost, director of public affairs for Fleming Companies, one of the nation's largest food marketing and distribution companies. Fleming distributes food and other products to more than 3,100 supermarkets and their customers in 42 states. We also own and operate 270 supermarkets and employ more than 41,000 associates. Our sales for 1996 were $16.5 billion.

Texas is one of our most important states. We operate six large distribution centers here and serve more than 530 supermarkets. We employ more than 2,000 associates in Texas, with an annual payroll in excess of $65 million.

Fleming is an active member of key trade associations, including the Food Marketing Institute, Food Distributors International and National Association of Wholesale-Distributors. I currently serve as chairman of the FMI Taskforce for Competitive Electric Service. Fleming also belongs to many state grocers' associations and is a member of several coalitions urging electric industry restructuring, including Consumers for the Deregulation of Gas and Electricity and Americans for Affordable Electricity.

Food retailers employ more than 3.2 million people, operate 131,000 stores and account for more than $412 billion in annual sales. The system that takes food from the farm gate to the dinner plate is the most efficient in the world, resulting in the highest quality and lowest cost food for Americans.

The system is extremely competitive and demands cost efficiency. Traditional supermarkets compete not only with other supermarkets, but with fast food restaurants, mass merchandisers and others. With margins in the one percent range, there is no room for error so we must seek out every efficiency.

On a national average, the typical supermarket served by Fleming will pay more than $100,000 per year for electricity. Large supermarkets in high-energy-cost states frequently pay $200,000 and more. In order to offer their customers safe, high-quality food, retailers must continually operate freezers, refrigerators, chillers, and cold display cases. They also utilize extensive indoor and outdoor lighting systems, electric checkout systems, computers, and so on.

In many stores, electricity is their highest nonlabor operating expense -- about one percent of sales, or approximately the same as the average store's profit.

Restructuring the electric utilities could save these stores an average of $30,000 per year and more. And because of the highly competitive nature of our industry, much of that savings will be passed on the consumer.

In Fleming's 40 plus distribution centers and 270 supermarkets across the U.S., we spend almost $60 million per year on electricity to keep food products fresh and safe for consumers. Our facilities engineer estimates that by removing the inherent inefficiencies in the utility monopolies through restructuring, Fleming would save more than $15 million per year in operating costs. Again, because of intense competition, much of this savings would be passed on to retailers in the form of lower cost of goods.

Ultimately, the American food consumer will benefit when these costs are removed from the manufacture, delivery and sale of all food products.

Obviously, a competitive electric industry offers Americans many benefits, including more disposable income when their own utility rates decline, and lower cost of many products such as food.

We believe that consumers should be allowed to purchase their electricity from the most efficient, cost effective producer, just as they do in our industry.

We believe that retailers -- who often pay the highest electric rates of any group because they do not have the buying power of the large industrials or the political power of the residentials -- should be allowed to aggregate their loads and buy in bulk on the open market.

And we believe that electricity consumers or taxpayers should <u>not</u> be solely responsible for the costs of contracts or facilities entered into or constructed under mandates of the federal government. Although some of these were legitimate, the length of the contract or size and type of facility may not have been mandated.

And finally, federal legislation is necessary to ensure fair access to the interstate market. States should continue to oversee local distribution and plant construction.

We ask that your legislation include the following:

- Customer choice for all consumers no later than December 15, 2000.
- The ability to purchase electricity like any other product or service.
- The ability for smaller customers to aggregate their loads for better purchasing power.
- Separation of the various segments of service, generation, transmission, distribution and billing services.
- And customers should not be responsible for revenues lost in the move to a competitive market.

Thank you Mr. Chairman and members of the committee for the opportunity to address this vitally important topic.